



10th September 2012

Secretariat
Finance and Expenditure Committee
Select Committee Office
Parliament Buildings
WELLINGTON 6011

**Submission on the Climate Change Response (Emissions Trading
and Other Matters) Amendment Bill**

To: The Finance and Expenditure Committee

From: Stuart Orme
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I wish to appear before the Committee to speak to my submission and can be contacted in this regard via the telephone number and/or email address listed above.

Mavis Mullins, Chair of Aohanga Incorporation would also like to appear before the Committee.

Yours sincerely

Stuart Orme
(MNZIF - Registered Forest Consultant)

SUBMISSION

INTRODUCTION:

Woodnet is a forest advisory and management business working with landowners throughout NZ, specialising in forestry (both indigenous and exotic) and other marginal land use options.

Over the last four years our office has completed in excess of 700 ETS related registrations (FAP and ETSA) and numerous supporting transactions. In that same time we have seen a major rise in the willingness for landowners to invest into their marginal land through forest establishment and promoted reversion to indigenous forest. This is without doubt in response to their understanding of the ETS drivers to reduce carbon emissions within NZ and an acceptance of Government policy continuing for the long haul to support this.

Our understanding of why NZ has an ETS is based on information distributed by both the MfE and MPI.

The MfE website notes the following:

New Zealand's Climate Change Targets

*In March 2011, the Government announced the decision to gazette a long-term target of a 50 per cent reduction in net greenhouse gases from 1990 levels by 2050. **Submitter's comment:** This is understood to be a NZ target domestically.*

*In August 2009, New Zealand announced that it is prepared to take on a conditional responsibility target for greenhouse gas emissions reductions of between 10 per cent and 20 per cent below 1990 levels by 2020. **Submitter's comment:** Most effectively achieved by a continuing new planting programme at 20,000 ha or more per annum.*

*A 'responsibility target' means that it is expected that New Zealand will meet its target through a mixture of domestic emission reductions, the storage of carbon in forests, and the purchase of emission reduction units in other countries. **Submitter's comment:** The purchase of offshore units does not affect the domestic reduction in net greenhouse gas emissions nor does it influence change behaviour in NZ at the foreseeable prices in the future if NZ continues to access credits not in full favour with our competitors.*

The New Zealand Emissions Trading Scheme

*The Government's principal policy response to climate change is the New Zealand Emissions Trading Scheme (NZ ETS). The NZ ETS has been designed to support global efforts to reduce greenhouse gas emissions while maintaining economic productivity. **Submitter's comment:** Forestry is second equal with agriculture for NZ's export earnings. A continued planting programme supported by robust land use policies is a major source of economic activity. NZ was well on the way to this happening with the increased investment into new plantings over the last two years.*

*The NZ ETS introduces a price on greenhouse gas emissions to provide an incentive for people to reduce those emissions and **plant forests to absorb carbon dioxide**. It places New Zealand as part of a group of countries introducing emissions trading, giving us a strong voice on the world stage and enhancing New Zealand's international reputation.*

The MPI (formerly MAF) website notes the following:

*The sector (Forestry) is entering an exciting new phase, as wood production volumes are expected to increase significantly in the coming years as forests planted in recent decades reach maturity. **Our forests are also at the centre of New Zealand's climate change response efforts, and there is also increasing realisation of the environmental and social benefits delivered by forests.** Submitter's comment: The current Government policy does not seem to show any realisation that NZ's forests, or the people that make commitments to establish, invest into and grow them, have a positive part to play in NZ's Climate Change Response effort.*

We are further concerned that Government agencies apparent inability to plan or think long term is contributing to giving policy advice/making policy decisions that have already seen to abrupt stopping of new forest establishment.

Further more it fails to recognise and therefore advise properly on the long term economic benefits the establishment, management and eventual sustainable harvest operations that forestry has to offer the NZ economy both in employment in the urban centres that support thee operations and the supplementary land benefits that derive from good forest covers and management on NZ hill country.

Numerous publications and road shows carried out by MPI (formerly MAF) to landowners and forest growers gave these 'Government statements ' credence and after a slow start in 2008-09 people became comfortable that the acceptance of forests and the role they have to play in the ETS was here to stay, and furthermore would be economically recognised.

We continue to advise our clients via newsletter and they have been advised of the content of this submission. The following parties have asked that this submission also be treated as representing their own view:

Name
Ian Campbell, Chair of the Montfort Trimble Foundation
David Paris, Manager Finance - Masterton District Council
Robert Joblin, Te Awa Station
Ed Kite, Akitio Station
Atihau Whanganui Incorporation (CEO - Chris Scanlon)
Aohanga Incorporation (Chair - Mavis Mullins)
Sam Ellingham
Phil & Sue Hawkins
Ed Davis
John Emerson <i>"The lack of consistency by government just encourages me to harvest my trees at the earliest opportunity"</i>
Paul Melser
Brian & Jane Baird
William & Elaine Gooding
Bruce Tosswill
Murray & Dianne Peters
Randal Cornish
Dougald Mabin
Philip & Garry Wells

William Beetham
Mark Warren
James & Sally Williams
Gert & Christine Vermeer
Robert Adamson
Richard Gaddum
Bob Boardman
Harriet Palmer
David & Judith Lunn, Diane Cluitt
Peter Sainsbury
Peter Warwick

This client base above ranges from 8 ha to in excess of 1,000 ha of affected land.

We have further consulted with:

- The Ministry for Primary Industries.
- The Office of the Minister for Climate Change Issues.
- Federated Farmers.
- A subset of our clients that include:
 - two Maori Incorporations,
 - local territorial authorities,
 - landowners (farmers) and forest investors.
- We have also spoken with both emitters and companies specialising in trading credits.

GENERAL COMMENTS:

We support the ETS and all the positive action it has had for emission reduction on the national account, forest investment and land use options opening up for landowners with marginal land that can now receive carbon credit recognition.

We believe the objective of the original Climate Change Response Act 2002 is to reduce NZ's carbon emissions, through change behaviour to affect a lower carbon (emitting) economy domestically.

When NZ chose an ETS over a carbon tax, it was done so that NZ producers would not be exposed to higher costs of mitigation than our international competitors and with an understanding that the market price of a credit would be sufficient to encourage 'change behaviour' and reduce emissions in NZ.

Over the last few years we have come to realise that our competitors are not allowed access to the same range of credits that the NZ ETS allows NZ emitters to surrender.

We understand that to get 'Kyoto' across the line the United Nations chose to accept a range of credit types from Russia and the Eastern Block nations that were not acceptable for surrender in Europe in anything but limited numbers. Many of these credits are produced from nations without a domestic ETS and are produced primarily for sale to generate overseas earnings.

Given that the growing volumes of many of these credit types (CERs, ERUs, RMUs) have limited market options, the price they are sold for is well below what a European emitter has to pay for their preferred unit of surrender being the EUA (note: this is not an ERU).

In our view, continued access to credits:

- a) that have marginal acceptance worldwide,
 - b) that are not readily available to our competitors,
 - c) that may not be able to be generated within the NZ ETS programme, and
 - d) that based on suggested supply/demand figures will continue to become progressively cheaper,
- will do nothing to encourage reduced emissions domestically,
 - nor reward those that have invested in forest planting and positive land reversion practices made in good faith over the last four years,
 - nor encourage the further new planting required to keep NZ in carbon surplus as existing post 1989 forest is harvested.

COMMENTS ON THE OBJECTIVES OF THIS BILL:

Objective: Ensure that the ETS more effectively supports the Government's economic growth priorities.

We understand that NZ is in surplus regarding our Kyoto commitments largely due to the carbon sequestered in its forests. In the period 2018 to 2024 it is expected that many of these forests planted in the early to mid 1990s will be harvested and this 'surplus' equation will be reversed to a major deficit. This is an occurrence that has no alignment with NZ's 100% pure brand or what appears to be current Government rhetoric concerning NZ doing its fair share regarding domestic reductions in emissions or positive behaviour change.

The NZ forest industry is the second largest exporter in NZ and furthermore provides almost 100% of NZ's domestic timber requirements. Growth in this industry in the last 20 years has been predominately by private landowners with large plantings in the period 1993 to 1995. Between the start of the century and 2009 planting of new land reduced to almost zero hectares per annum with the increased costs associated with forest harvest, declining forest revenues, and the period of time between investing in planting and a potential economic return.

Since 2010, NZ's new planting programme accelerated from perhaps 1,000 ha per annum to 11,000 ha (plus) per annum, driven by new investment made possible by the confidence that immediate carbon returns were offered to new forest owners within the first 10 years of the forest's life.

At a \$20 carbon price there is an economic paradigm shift in that the ability to receive and sell carbon in the first 10 years of a forest's growth effectively lifts the land use returns for forestry in the lower North Island from 5% to 20% IRR excluding land costs. (From 4% to 8% including a \$3,000/ha land cost.)

It would be naive to separate farming and forestry into two separate industries in this space. Much of the new planting and land reversion decisions were made by farmers, fortified by a belief in the messages Minister Smith and others had delivered indicating that carbon returns would support these land use decisions.

With the change in emphasis in the Government announcement from doing our fair share to providing access to credits at the cheapest cost, confidence in that investment strategy has abruptly eroded.

As noted, NZ is currently in Kyoto surplus because of the large amount of forest credits available in the national account. When these forests, planted in the early to mid 1990s are harvested, NZ will go to a carbon negative position if new planting does not continue. The economic gain to NZ through a positive growing forest industry both within forest companies and private landholdings is potentially immense.

Additional gains coming from the amount of additional carbon sequestered and also the reduced amount of animal emissions through a reduction on livestock numbers on retired marginal land are all in the interests of NZ doing its fair share and meeting its domestic carbon reduction targets.

The Climate Change Response (Emissions Trading and Other Matters) Amendment Bill has the ability to renew confidence in new planting but to do this must recognise the value that forests have to NZ. Continued access to 100% of credits from UN projects that many of the countries that create them are unable to use will not do this.

The following is an excerpt from Minister Tim Groser's recent speech to the International Dialogue on the Future Climate Change Agreement:

Pp7 - "Well my strong view is that 'the transition' is not a vacuum, and the way that we all shape our actions, the way we report them, and the way we are held accountable for them – now and over the next few years – will be critical to whether we can succeed in building a new global agreement".

We believe the ETS has the potential to impact positively to build the NZ economy through recognising the value that forestry and positive land use change can make, and recognising this in the first instance by setting a minimum surrender volume for NZ emitters of 50% of forest generated NZUs or by paying NZ cap price for an NZU.

In time we would like to think that NZ would not allow surrender of credits that are generated in countries without a domestic ETS. Furthermore, we hope that only credits that our recognised trading competitors can access (and in similar percentages) would be accepted within our own ETS. In this way we may go some way to living up to Minister Groser's strong view above.

Forestry is a long term game and many of our clients who recently planted trees are close to or past the retirement 'stage of life' but for the first time recognised what they thought were positive policies coming from the Government through MPI and MfE which encouraged them to invest in new plantings and long term indigenous land management decisions made over the last four years.

Objective: Improve the operation and administration of the ETS.

At a recent conference in Auckland the Westpac Carbon trading manager ex Australia advised that:

- Europe requires approximately 1,750 million carbon units between now and 2020;
- It is predicted they will have a minimum of 4,427 million available. In addition to this are numerous credits that they cannot use but which currently NZ will accept.

Less than 13% of credits surrendered in NZ for the 2011 year were NZ forest created credits.

Under the current and recommended way forward, the NZ ETS is a world leader in accepting credits from 'emission reduction programmes' that NZ would not necessarily accept as valid credit producing options domestically. Furthermore Europe will only accept a minimal number of these same units. Australia, our closest and arguably most important and competitive trading partner currently accepts none of these credits but in a recent announcement did say it might move to accept up to 12.5% of 'some' of them after 2015.

A policy change that an immediate requirement for NZ emitters to surrender 50 % of their emissions as NZUs or pay the cap price and the eventual recognition of units that only our major trading partners/competitors can accept and in similar percentages, will go a long way to **improve the operation of the ETS and domestic outcomes.**

COMMENTS ON THE MAIN MEASURES OF THE BILL:

Maintain the 1-for-2 surrender obligation after 2012, without specifying an end date in legislation.

We believe this should be phased out as per the recommendations of the Review Committee by the end of 2015.

Of all submissions received regarding this, only 28% were in favour of maintaining the 1-for-2 surrender obligation. (Ref: Updating the NZ Emissions Trading Scheme – Summary of Submissions).

Maintain the \$25-a-unit fixed price option after 2012, without specifying an end date in legislation.

We believe the review recommendation of maintaining the cap price of \$25 plus progressively increasing it annually for a period of time was a sound recommendation.

It is important that there is the ability to review this – potentially in line with the Australian and other prominent trading partner ETS/Carbon Tax directions such as the UK, South Korean and Chinese schemes, all of whom represent major trading partners with NZ.

Remove a specified entry date for surrender obligations on biological emissions from agriculture.

We have no view regarding a specified entry date, but believe that Agricultural emissions should be better understood.

Statistics provided by Dr Harry Clark working on the Global Research Alliance based at Massey University in Palmerston North for NZ advise that:

- Sheep numbers in NZ at the start of 2008 were much reduced to those in 1990 with a resultant decrease in emissions of 50% emissions over that period.
- Cattle numbers have remained static and emissions likewise have not changed, and
- The Dairy sector has had a rise in emissions of just over 100% in that same period.

These numbers support the argument that sheep and beef farming in NZ is in credit re their emission profile compared with their 1990 output and should not be taxed.

Given that the total additional livestock emission profile is dairy related, we believe that the continued misdirection and misinformation purported from government agencies to the agricultural sector is inhibiting positive engagement, progress and potential buy in by many land owners.

Introduce offsetting within the ETS as an option for pre-1990 forest landowners.

Offsetting is a logical option that should allow the land to be used for its 'best use' vs. its 'historical use'.

Offsetting offers a way for NZ to take advantage of best land use and recognises that there is land in forest that would have a more productive application in another land use which in turn will benefit NZ.

The end result that offers the best option for NZ going forward is that offsetting is available at no cost to any party that wishes to pursue the option. Additionally as the Government has provided

an amnesty to all other emitters in part or full to date we believe this should be applied to deforestation situations and affected parties.

We therefore request that forest deforestation surrenders be granted a 2 for 1 amnesty as per the way all other emitters are treated until the 2 for 1 amnesty is lifted on everyone.

And also that:

Anyone wishing to take up the option of offsetting can, and that the second tranche of credits allocation will stay in place **in full** to recognise:

1. Pre-1990 forest land has decreased in value due to the deforestation liabilities it now carries.
2. That not all pre-1990 forest landowners are currently in a position to offset and it is inappropriate for them to have to make a decision now on potential future land use.
3. That implementing an offsetting strategy is not cheap or at reduced costs.

The landowner if wishing to offset has:

- Additional land purchase costs for land that will immediately devalue to reflect its new “Pre-1990 forest land status”.
- Preparation and establishment costs.
- AND STILL RETAINS the deforestation liability that has not been erased but merely moved geographically.

Claw back the second tranche of allocation to pre-1990 offsetting forest landowners from those who ultimately take up offsetting.

As above.

Introduce an express regulation-making power to allow auctioning within an overall limit on the amount of New Zealand units (NZUs) allocated (excluding the second tranche of allocation to pre-1990 forest landowners) or provided under a negotiated greenhouse gas agreement.

Auctioning was first suggested in government consultation documents because there were not enough NZUs available to meet NZ emitters surrender requirements.

Unfortunately no one has been able to articulate what this system is to look like so at present forest and land owner interests are suspicious of how it can help NZ suppliers of units and hence we suggest if the establishment of new forestry projects had not already stopped – this would have begun if auctioning is introduced.

We can see no reason to bring auctioning in given NZUs are available to emitters at a cap price (currently) of \$25 NZD (less than the Australian price of \$23 AUD and the UK price of 16 Pounds (\$32 NZD) if they are unable to purchase them from NZ or UN backed projects at a cheaper rate.

Given the rejection of the review committee's recommendation to increase the cap price by \$5/NZU/annum, there appears to be a drive to soften the amount an emitter needs to pay to meet their obligations, irrespective of what they charge consumers to collect revenue to purchase emission reduction quota.

Although we were advised by the Office of Climate Change Issues that they do not know what emitters are charging New Zealanders at the petrol pump or electricity meter we have solid evidence that it is closer to \$25 than the market rates credits are being purchased for which screams loud and clear that continued access to cheap credits is not reducing the costs of the NZ ETS to the NZ economy.

Based on Government Agencies' apparent inability or unwillingness to collect what is in many cases readily available information, we have serious concerns that their recommended introduction and use of auctioning has not been well thought out or offers any gains to the NZ ETS unless it is altered beforehand.

That said if things were to change our preference would be to see:

- 1 A requirement for NZ emitters to surrender 50% (climbing to a higher figure as NZ created credits become available) of their emissions as NZUs (forest created) or pay the cap price currently at \$25 and eventual recognition of units that only our major trading partners/competitors accept and in similar percentages.
- 2 The price cap (currently \$25/NZU) with incremental price increases as per the review committee's recommendation in place for emitters to take advantage of if they are unable to purchase NZUs. We again note that the UK recently announced a floor (cap) price of \$32 NZD equivalent to apply from April next year and expected to rise to \$60 NZD equivalent by 2020, and the Australian intention was to have a price closer to \$30 NZD with incremental increases attached annually going forward.
- 3 The ability for NZU holders/producers (forest owners) to export up to the 'combined number of credits available to emitters from their respective industry allocations, what they are allowed to purchase from offshore – and auctioning' should the concept take hold.
- 4 That the auction price would never be less than 80% of the NZ cap price.

This would:

- 1 Ensure a competitive bidding process for NZUs.
- 2 Ensure that monies collected through any ETS tax gathering carried out by energy companies and other affected emitters, stays in NZ.
- 3 Avoid emitters collecting a margin on the difference between monies collected (at say \$25/NZU at the pump or electricity meter board) and monies actually paid for the carbon units they eventually surrender to the Crown.

Remove the requirement to “back” all NZUs issued with a Kyoto unit.

The proposal that the Government intends to remove its obligation to back all NZUs with an equivalent amount of international units (currently Assignable Amount Units – AAUs) is a major concern.

Currently a holder of NZUs can sell them off shore and as the transaction is carried out the NZU is converted to an AAU and received by a limited number of international buyers.

If we are unable to convert NZUs to an acceptable international unit, forest growers (both exotic and indigenous) in NZ will be limited to a NZ only market – currently oversupplied by offshore units and potentially at the exposure to an auctioning system capable of reducing the price of credits further.

COMMENTS ON THE TECHNICAL AND OPERATIONAL CHANGES OF THE BILL:

Making minor forestry changes, including—

- clarifying where deforestation liabilities do not apply; and
- changes to continue efforts to control tree weeds; and
- ensuring that unrelated holdings of trustees are not counted towards the less-than-50 hectares exemption threshold.

We agree with the proposed changes involved in the above.

COMMENTS ON SPECIFIC CLAUSES OF THE BILL:

This comment relates to Clause 15 of the Climate Change (Forestry Sector) Regulations 2008 - Method of calculating emissions for deforestation of pre-1990 forest land.

Currently if land is deforested the amount of carbon to be surrendered is determined by the MPI deforestation tables.

These are a regional indication similar to the carbon sequestration tables used to allocate carbon units for post 1989 forest.

We have a client that found themselves in a deforestation situation outside of their control. They accepted that as landowners they were liable for the deforestation surrender in the first instance but appealed the area deforested and the amount of carbon released. MPI agreed that the area should be reduced (as per the appeal) and did so.

They also agreed that the amount of carbon released was substantially below the amount calculated by the deforestation tables, however nowhere in the Act or Regulations did it allow them to assess the 'amount' based on anything other than the tables.

We seek an amendment to the Act to allow MPI, where there is an obvious discrepancy between the actual situation and the look up tables, to make an assessment to the amount of carbon units that should be surrendered.

As with many other parts of the Climate Change Response Act we request that this have the ability to be retrospectively applied.

SUMMARY:

The objective of the original Climate Change Response Act 2002 is to reduce NZ's carbon emissions, through change behaviour to affect a lower carbon (emitting) economy domestically.

We support the ETS and all the positive action it has had for emission reduction on the national account, forest investment and land use options opening up for landowners with marginal land that can now receive carbon credit recognition.

We believe that some sections of this Bill undermine original objectives of the Climate Change Response Act 2002, and furthermore the passing of this Bill in its entirety will not only erode what has been achieved thus far by New Zealanders who have bought into the overall philosophy of the ETS, but will effectively stop it in its tracks.

We urge you to consider ours and other submissions carefully with the long term objectives of the original Act in mind, not just those of certain business and economic interests of the day.